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C O N F I D E N T I A L SECTION 01 OF 02 ABU DHABI 003966

SIPDIS

STATE PASS FEDERAL AVIATION ADMINISTRATION

E.O. 12958: DECL: 09/19/2015  
TAGS: [EAIR](#) [ETRD](#) [PREL](#) [PINR](#) [TC](#)  
SUBJECT: ABU DHABI CIVIL AVIATION: RAISING THE PROFILE

Classified By: (U) Classified by Ambassador Michele J. Sison, reasons 1  
.4 (b) and (d)

¶1. (C) Summary: Abu Dhabi is raising its profile in the civil aviation arena, building a new government-sponsored airline and renovating the airport to accommodate significant growth, as it begins investing money to raise Abu Dhabi's international profile. Although Abu Dhabi is the capital city of the UAE and controls the UAE's oil wealth, Dubai Emirate in recent years has focused on building its aviation, financial, and tourism industries. Since Sheikh Zayed died in November 2004, the new Abu Dhabi leadership has refocused on enhancing Abu Dhabi's status as a destination city. By concentrating on a new airline and airport (which will largely compete with similar projects in Dubai Emirate and nearby Qatar), Abu Dhabi Emirate is beginning the long-term political and financial investment necessary to enhance Abu Dhabi's status. UAEG officials eagerly await the planned opening of the FAA's Middle East regional office in fall ¶2005. End Summary.

#### Political Prestige of Civil Aviation

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¶2. (C) Abu Dhabi views investment in civil aviation as a primary part of enhancing the tourism infrastructure within Abu Dhabi Emirate. Abu Dhabi's key objectives in establishing a viable civil aviation industry are to increase Abu Dhabi's international profile and to increase passenger and cargo movement through Abu Dhabi -- and to compete with Dubai Emirate's strong civil aviation sector. Dubai has been involved in aviation for more than 20 years through government-funded Emirates Airlines and is currently involved in a major renovation project of Dubai International Airport (for increased passenger capacity) and Jebel Ali Airport (primarily for cargo growth).

¶3. (C) Abu Dhabi Crown Prince Mohammed bin Zayed Al Nahyan is

personally involved in decisions in aviation, particularly in making airplane purchases and identifying key leaders for Abu Dhabi's airline and airport growth. The primary player in Abu Dhabi's civil aviation sector is Sheikh Ahmed bin Saif Al Nahyan, a member of Abu Dhabi's ruling family. Sheikh Ahmed bin Saif is chairman of the board of Etihad Airways, chairman of the Gulf Air Maintenance Company (GAMCO), and chairman of Abu Dhabi's Department of Civil Aviation. He was also CEO of Gulf Air from 1994 to 2000 (when Abu Dhabi Emirate held a 25 percent share in the airline), although he was criticized for his activities during that period. Sheikh Ahmed's multiple key roles in the civil aviation sector have led to some complaints of conflict of interest, and include criticism that he has allowed a maintenance company (GAMCO) to make decisions for the airline, slowing its growth. Although Sheikh Ahmed remains a key decision maker for Etihad Airways, Abu Dhabi's leadership has made significant changes in an attempt to allow Etihad to become a more financially-viable operation and to allow free market growth of Abu Dhabi's aviation sector. (Bio Note: Sheikh Ahmed is also a pilot and holds a Ph.D.).

#### Etihad Airways

14. (C) Abu Dhabi Emirate established Etihad Airways in November 2003 as a state-sponsored carrier. Since inception, the airline has been running at a significant loss due to organizational and management difficulties. In recent months, the Abu Dhabi leadership appointed Austrian Robert Strodel as CEO and has given him broad authorities to make changes in the internal and external organization of the airline. Strodel, who has 30 plus years of airline experience (primarily with Lufthansa), has started by restructuring Etihad, replacing many section heads (although some of these changes were subsequently vetoed by Etihad's board of directors), and most significantly, breaking Etihad's contract with GAMCO. Until Strodel's appointment as CEO, Sheikh Ahmed bin Saif Al-Nahyan had ensured the continuing, if non-profitable, relationship with GAMCO. The difficulty in separating Etihad and GAMCO (the two companies are currently renegotiating a contract) illustrates the political level investments in Etihad, but the freedom Strodel has been given demonstrates that Abu Dhabi Emirate is serious about making Etihad a financially-feasible airline, rather than just a government showpiece.

15. (C) Etihad still faces a number of serious challenges, however. It has major ambitions -- purchasing 54 aircraft to replace the current leased fleet (orders have been given for 29 already including 5 Boeing 777s and 4 Airbus E380s) to fly to 70 destinations (currently they fly to 20) within the next four years. In order to succeed in this ambitious plan, Etihad will need to restructure the company, purchase spare parts and make maintenance arrangements for the mix of Boeing and Airbus planes -- all within a short timeframe. Despite Etihad's past financial difficulties, Abu Dhabi Emirate is solidly behind promoting the airline. The Emirate will formally announce its withdrawal from Gulf Air this week; Abu Dhabi has held a 1/3 share with Bahrain and Oman (Note: Qatar similarly pulled out in 2002 to focus on Qatar Airways). By pulling out of Gulf Air, Abu Dhabi both eliminates competition and cuts costs (Gulf Air will likely reduce the number of flights through Abu Dhabi). Gulf Air has been operating in the red for several years while undergoing major strategic and operational changes, but still faces challenges of an outdated fleet that will need to be revamped in the near future. In the region, there are now four major airlines: Etihad, Gulf Air, Emirates Air (based in Dubai) and Qatar Airways. It is likely that some of these airlines will either need to "downsize" or "rightsize" in the near future with the rising regional competition. Abu Dhabi's withdrawal from Gulf Air may indicate the first casualty. Abu Dhabi Emirate is investing the resources -- both financial and human -- to ensure the same does not happen to Etihad in its nascent stage.

#### Abu Dhabi Airport Expansion

16. (C) Abu Dhabi International Airport is currently

undergoing major expansion to raise capacity to 20-25 million passengers a year by 2009 (equaling Dubai's expansion plans).

The project includes adding a new runway (large enough to accommodate Etihad's planned E380s), new passenger and cargo terminals, and outbuilding support for the increased passenger load. Supporting this expanded airport is the federal Civil Aviation Authority's new air traffic control center, scheduled to open in 2006 with the capacity to handle the increased air traffic over Abu Dhabi and Dubai Emirates.

¶7. (C) The airport expansion project still faces significant obstacles to providing a successful base for an expanded civil aviation sector. Although tourist infrastructure development plans are being considered for Abu Dhabi, including reports to increase hotel space by more than 2,000 rooms, the majority of these hotels will be located in central Abu Dhabi rather than in the rather bleak area surrounding the airport (approximately 40 km outside of town). In order to support the increased passenger load - and particularly considering the possible overnight stays required for some connection flights between Europe and Asia - sufficient infrastructure will need to be constructed near the airport to support the planned passenger load. Additionally, the Civil Aviation Authority (CAA) is facing severe human resource shortages, particularly among air traffic controllers. While there are enough personnel to maintain current staffing levels, limitations in training facilities have made growth difficult. The UAE will need to address these infrastructure and personnel concerns, to match their already committed financial resources, in order to achieve success in the airport growth.

Comment

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¶8. (C) Abu Dhabi Emirate has demonstrated that it is financially committed to ensuring the success of the civil aviation sector. However, there are still significant challenges in infrastructure development and human resources facing both the airport expansion plan and Etihad Airways. In order to achieve the long-term success of the civil aviation and tourism infrastructure goals, the Abu Dhabi leadership needs to ensure that key aviation leaders have the freedom to make the required economic decisions that will ensure financially-feasible aviation operations.

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